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SUBJECT: Toy Safety: Phthalates Still Problematic, Lead Under Control

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11. (SBU) Summary: Supply chain security is still the biggest challenge for the south China toy industry, Hong Kong-based owners of two top-tier toy manufacturers told Congen Hong Kong and Congen Guangzhou officers in their Pearl River Delta factories. Phthalates (an ingredient that increases plastic flexibility) have proven difficult to eliminate from toy components, even as lead contamination - the reason for the massive toy recalls of 2007 - has become less of a concern for manufacturers. Product testing costs continue to escalate, with some western brand owners asking Chinese suppliers to set up internal testing laboratories and increase testing during the manufacturing process. Toy makers said they are most concerned about inconsistent U.S. state and federal laws as a threat to their long-term compliance efforts. End summary.

Supply Chains Remain Greatest Risk

12. (U) Eliminating phthalates from toy manufacturer supply chains is an ongoing challenge, according to representatives of a top-tier Hong Kong-owned toy producer in Shenzhen. Toy makers told Congen Hong Kong and Congen Guangzhou econoffs on a joint reporting tour of Hong Kong and Guangdong testing facilities and factories that it had not been difficult to adapt the production process to phthalate-free materials, but finding suppliers who could provide the materials had been more challenging. (Note: Discussions with testing companies in Hong Kong will be reported septel by Congen Hong Kong. End note.) Because the six phthalates in question are widely used in plastic and other components across a range of manufacturing industries, the company's ability to verifiably eliminate the ingredient from supply chains has been more difficult than originally predicted. The company's product safety manager said she was surprised to find phthalate contamination in fabrics and other non-plastic components, leading major toy companies to broaden the scope of their supplier and safety testing requirements for these substances.

13. (U) Lead is no longer a major threat, according to the same executives. They said that the major recalls that took place in summer and fall of 2007 led to dramatic changes in both supply chains and manufacturing processes. The risk of lead-related problems is low among top-tier producers which have robust quality control procedures. Paint suppliers have received the greatest attention, including stringent supply chain control protocols and a redundant testing system; moreover, lead has been eliminated or reduced to government-mandated levels in electronic parts and other toy components as well.

Increased Testing Costs and Complexity

14. (SBU) According to a top-tier toy supplier based in Dongguan, one of Guangdong Province's major manufacturing centers, toy testing costs have increased "10-fold" in the last two years. Toy makers are conducting a higher aggregate number of tests in order to meet government-mandated (China and destination countries) certification requirements; there are also duplicative testing requirements required by foreign buyers and toy brand owners. Executives said the newest trend was for brand owners like Mattel and Hasbro to request that original equipment manufacturers (OEMs) set up internal testing labs and build more testing procedures into each step of the toy production process.

15. (U) Both manufacturers visited by econoffs demonstrated the use of their most expensive piece of testing equipment, the Inductively Coupled Plasma (ICP) Optical Emission Spectrometer, which they described as a USD 250,000 analysis machine that is often required

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by western brand owners. Executives said the high fixed costs of the ICP machine means that they spend a bit more upfront but are able to set up a comprehensive internal testing lab that is actually not much more expensive. The Shenzhen factory representatives said their lab began operating a few months ago and subsequently applied for certification by the China National Accreditation Service (CNAS) for conformity assessment. Chinese certification will help enable them to reduce outside testing.

16. (U) By reducing outside testing during the manufacturing process, in-house labs can also cut costs and reduce production delays. They emphasized that outside testing in accordance with government regulations would continue, but pre-production testing and other status checks could increasingly be handled by in-house labs in the lead-up to final safety certifications from accredited third-party laboratories.

Calling for Phased-In Enforcement

17. (SBU) The complexity of testing for six different restricted phthalates, especially the substrate tests, is the greatest testing challenge for manufacturers right now, according to the Hong Kong-based toy executives. They complained that surface tests for phthalates should have been enforced for a period of time before requiring a comprehensive ban on both surface and substrate phthalates. The executives claimed that a stay of enforcement for substrate phthalates, as has been used for certain other children's products, might be an acceptable alternative while the toy industry fully implements the new safety requirements. Manufacturers said they had no choice but to comply with the current regulations, but a phased-in approach would help industry adapt more easily.

State Laws Scare Toy Businesses

18. (SBU) Illinois Public Act 095-1019 is one example of new state laws that require toy companies to comply with quality standards that are stricter than federal U.S. regulations, a situation that Hong Kong-based executives said is their source of greatest concern right now. According to the law, which will take effect on January 1, 2010, children's products sold in Illinois and containing more than 40 parts per million (ppm) lead content must include a special

warning label about lead content. Manufacturers are concerned that the Illinois lead limit is less than half the allowable limit in the Consumer Product Safety Improvement Act (CPSIA). They fear a growing number of state laws and regulations that differ from CPSIA would make it difficult for companies to fully comply with each jurisdiction's regulations.

19. (U) This cable was coordinated with Consulate General Hong Kong.

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